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SIPDIS

BUSINESS SENSITIVE

ANKARA PASS TO IZMIR

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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [BEXP](#) [BTIO](#) [TU](#) [IZ](#) [ADANA](#)

SUBJECT: BUSINESS COMMENTS ON IMPACT OF IRAQ
TRADE ON SE TUREKY

1.(SBU) Summary: Southeast Turkey business people have demonstrated continuing interest in doing business in Iraq in discussions with consulate personnel, but have yet to commit significant resources pending resolution of questions regarding security, export status of goods and business viability assessments, including business licensing and financing issues. Agricultural trade, primarily cotton, and textile manufacturing are at the center of much local Turkish business interest. Meanwhile, residents of the two closest Turkish border towns to Iraq, Cizre and Silopi, note the negative impacts of border trade on their incomes and quality of life. End Summary.

2.(SBU-BUS SENS) A prominent Adana-based SABANCI Holdings representative told PO recently that the SABANCI group is disappointed that it recently lost a small-medium bus manufacturing joint venture bid in Iraq, but said it is determined to find long-run investments in Iraq to pursue. He offered AKBANK involvement in the Trade Bank of Iraq as proof as well as the soon-to-open SABANCI representative office in Irbil. He wondered how textile exports from Iraq to the U.S. might be viewed, too. Meanwhile he said that there are some steady sales of SABANCI Group HAYAT bottled water into Iraq, as well as LASSA tire sales through Turkish-based retail distribution re-sale to independent Iraqi outlets. He closed the discussion by saying that the SABANCI Group is also very interested in investing in state enterprises once privatization commences, mentioning specific interest in the cement sector.

3.(SBU-BUS SENS) When asked where he thought there might be evidence of recent heavy U.S. investment positively affecting southeast Turkey's economy, he discounted the impact that the 2003 U.S. government approximately 700 million dollar in purchases would have locally. He said most of the U.S. purchases were devoted to fuels and that those monies stayed in Istanbul or offshore. He said that drivers recruited from southeast Turkey to deliver fuels and perishables to Iraq were being paid low wages and now had to declare income openly that they pre-war had shielded from tax authorities. He also said that many local agha's in the southeast played a major role in regional trucking and were receiving the lion's share of transportation expenditures. He described this group as having " little tradition of save and re-invest in the region," saying they may have started purchases of construction commodities related to new up-scale personal housing, but that most money had probably found its way to Istanbul or elsewhere outside the region.

4.(SBU) EUCOM Forward liaison contacts who have been working the ground line of communications since Spring 2003 note some economic development along the approximately 600 KM route, including more available consumer goods in Silopi and the appearance of several truck stop-like break areas on the western and central parts of the route. They note, however, that the roadbed on the route is in bad repair, especially sections between Gaziantep and Sanliurfa, and in Mardin and Sirnak provinces. Comment: Consulate concurs based on its own recent travel along route. End Comment.)

5.(SBU-BUS SENS) SANKO representatives have indicated that they have little exposure to 2003 Iraq border trade beyond significant sales of SANKO-Group NESTLE joint venture bottled water. They described these plants as working at almost full capacity, but declined to consider expanding bottling capacity, viewing the market as profitable, but short term since Iraqi water bottling soon would start. They said that they would await further security stabilization before considering participation in the Iraqi market, focusing instead on increasing efficiency in high value-added textiles and expanding their synthetic textile production.

6.(SBU-BUS SENS) The SANKO representative hinted that the group would like an outside investor to join them in significantly expanding their small naptha-cracking facility in Yumurtalik, near Adana, to build their synthetic fiber source base, among other uses. They said that they already have more than adequate land at the existing site for significant plant expansion.

7.(SBU-BUS SENS) A young, yet successful and quickly rising, member of a Diyarbakir integrated textile firm which is entirely owned by a prominent Kurdish family told PO in late January that he had visited Iraq twice recently and found it highly underdeveloped. Nevertheless, seeking early access to projected later growth sectors, he wanted to buy a currently empty entire textile factory in Kirkuk and added that he was willing to buy all northern Iraqi cotton output for 2004 to get the plant running. He projected that he could employ up to 400-500 people should he be able to complete the sale. He said that completing the transaction was still unclear because his family found it somewhat "disloyal" for him to invest in Iraq now because the southeast Turkish economy was suffering so. Nevertheless, he said that he had found a good Iraqi lawyer to "work the system in northern Iraq" and would proceed over family whisper dissent if he could find adequate trustworthy Iraqi management for the enterprise and a manner to secure a durable business license and transparent tax treatment. He also strongly stressed his desire to see at least the U.S. import Iraqi-source textiles on a quota-free basis.

8.(SBU-BUS SENS) In the interim, he said that he was starting a northern Iraqi-based water bottling business, even though he had little experience in the sector, in conjunction with a more experienced Turkish partner. He said that he found a suitable source when looking for textile factory sites during a November 2003 visit to Iraq.

9.(SBU-BUS SENS) A Cizre local contact presented another side of the Iraqi border trade to PO recently. He said that the heavy truck traffic heading into/out of Habur Gate had heavily damaged area roads and created environmental damage, including major air and water pollution. (Comment: Silopi and Cizre municipal officials and local travel corroborate this statement. End Comment) This contact also noted that local traders now have to pay "rich businessmen" for the right to carry a legitimate cargo into Iraq in order to buy low-cost Iraqi fuel to bring back to Turkey to sell on the gray market. Given 10-12 day transit times through Habur and the 100 dollar a load "cargo access fee" supposedly involved, he said local truckers were getting by on perhaps 500-600 dollars a month, much of which they had to spend on food and board in Iraq waiting to clear lengthy Turkish customs procedures on each trip. He said that this was deepening the "rich-poor divide" in deep southeast Turkey and building resentment at the border trade situation.

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